

# taxBlitz

Tax & Customs Update

## Technical Regulation Is Issued, Along with the MSME Tax Guidelines

Ministry of Finance made the implementing technical guidelines for the tax obligation of the Taxpayers whose revenue is up to IDR4.8 billion per year. The Taxpayers in which the majority are included in the category of Micro, Small, and Medium Enterprises (MSME) are given two options of Income Tax impositions, i.e. with the lowest rate (0.5%) or using normal rate.

The implementing guidelines of Government Regulation (PP) Number 23 Year 2018 is stated in the Minister of Finance Regulation (MoF) Number 99/PMK.03/2018 on Income Tax on Income from Business That Is Received or Earned by Taxpayers Having Certain Revenue, effective since promulgated on 27 August 2018.

Both packages of regulation above are the translation of the government policy that lower the final rate of Income Tax for MSME persons, from 1% to 0.5% of the total turnover in a year. However, the Government give freedom to the MSME to choose whether using the Income Tax rate of 0.5% or general Income Tax rate.

Individual Taxpayers may utilize the final Income Tax rate of 0.5% for seven years. Meanwhile, for Corporate Taxpayers, the validity period of the final Income Tax rate is three years for those having status as Limited Liability Company (LLC) or four years for those incorporated as CV, firm, or cooperative.

For the old Taxpayers, the effective validity period is since the regulation promulgated. Meanwhile, for the new Taxpayers, the period is from the time the Taxpayer is registered.

Through MoF Number 99/PMK.03/2018, the Ministry of Finance described the tax mechanism for MSME Taxpayer in more details. Things regulated, among others: the provision of Income Tax report, the mechanism of withholding or collecting Income Tax, as well as the tax reporting obligation.

The mechanism of MSME tax remittance can be done in two ways. *First*, the Taxpayers self-report their own tax obligation every month. The Income Tax payment is made at the latest on the 15th of the following month, after the end of the tax period.

*Second*, the tax obligation of MSME can also be done by being withheld or remitted by the tax withholder. The second option is chosen when the Taxpayers conduct a transaction, as long as the Taxpayers submit the copy of Statement Letter stating that the relevant party is the Taxpayer imposed by final Income Tax rate of 0.5%.

The Income Tax withheld has to be remitted by the tax withholder at the latest on the 10th of the following month. The remittance can be conducted using Tax Payment Slip or other means by entering the identity and Tax ID Number of the Taxpayer being withheld. Meanwhile, the submission of the Periodic Tax Return of the Taxpayer being withheld shall be within 20 days, at the latest, after the end of tax period.

## Statement Letter

The Taxpayer can obtain Statement Letter by submitting an application to Director General of Taxes (DGT), with the following steps:

- The application is submitted to Tax Office where the Taxpayer is registered, the tax services dissemination and consultation office, or micro service office;
- The application is signed by the Taxpayer or proxy (under the condition that the special proxy letter is attached);
- The Taxpayer has submitted their Annual Income Tax Return for the last fiscal year. Except, for the recently-registered Taxpayer or those who are not obliged to submit their Annual Income Tax Return for the last fiscal year.
- The Taxpayer meets the requirements as a Taxpayer who can enjoy the final Income Tax rate of 0.5%.

The granting or rejecting decision of the application must be made by the DGT in three working days after the application is submitted. If exceeding the deadline, the DGT is deemed granting the application.

The Statement Letter is valid since the issuance to the period of utilizing the final Income Tax rate of 0.5% is finished. Thus, the Taxpayers who choose to be taxed under the general provision does not need to have statement letter.

The Taxpayers who choose to be imposed by the rate in accordance with the general tax provisions shall submit a notification letter to the DGT under the following conditions:

- The application is submitted at the latest by the end of fiscal year;
- Taxpayers registered by 1 July 2018 to 31 December 2018 are subject to Income Tax starting from the fiscal year registered by submitting the notification at maximum on 31 December 2018 or the end of the registered fiscal year;
- Meanwhile, the Taxpayers registered since 1 January 2019 will be subject to Income Tax in accordance with the Income Tax Law since the time of being registered by submitting the notification during the registration.
- The Taxpayers being subject to Income Tax with general provisions shall pay the installments of Income Tax Article 25 starting from the time of choosing the Income Tax in accordance with the Income Tax Law.

## Simulation 1

Mr. A is an architect owning a building materials store. In 2020, he has an income of IDR2.2 billion, the details are as follows: IDR1 billion was from the architect service under his own name and IDR1.2 billion was from the building materials store business.



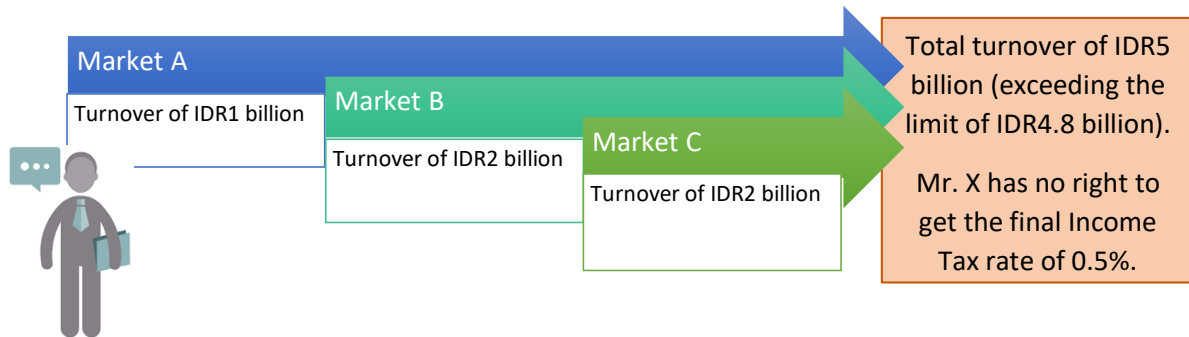
Building Materials Store

IDR1.2 billion

Final Income Tax rate of 0.5%

## Simulation 2

Mr. X is a textile seller whose business has spread in several places. In 2019, his business activities in several places are recorded with the following revenue:



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